

Message Text

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E.O. 11652: GDS

TAGS: MASS, UY

SUBJ: FMS CREDIT FOR AIRCRAFT - URUGUAY

REF: (A) STATE 139832; (B) STATE 133839

1. I UNDERSTAND THAT THE CREDIT FOR THE A-37S WAS SIGNED IN TIME AND I AM GRATEFUL FOR THE HELP IN MEETING THE TIGHT DEADLINE. HOWEVER, I WOULD BE LESS THAN HONEST IF I DID NOT ADD THAT THESE LAST MINUTE DEALS ARE NOT CONSUMMATED WITHOUT COST.

2. MOD RAVENNA, A FIRST-RATE PERSON AND GOOD FRIEND, CHIDED US FRIDAY EVENING ABOUT HAVING GIVEN THEM ONLY 48 HOURS TO MAKE A DECISION ON THE FMS CREDIT FOR THE A-37S. THE MINISTER, ALWAYS A GENTLEMAN, SAID THAT THEY HAD TO SIGN WITHOUT HAVING HAD TIME TO REALLY STUDY THE PACKAGE. "FOR EXAMPLE," HE ASKED, "DOES THAT PACKAGE INCLUDE THE PLANES DELIVERED HERE OR MUST WE GO GET THEM?" HE WENT ON, SAYING THAT THE GOU HAD BROUGHT THE ROLLING STOCK FOR AFE (STATE RAILROADS) AND BUDGETED FOR IT. HOWEVER, A FEW DAYS BEFORE HE HAD HAD A CALL FROM HIS ATTACHE IN WASHINGTON SAYING THAT THE RAILROAD EQUIPMENT HAD TO BE MOVED SIX MILES (WE ARE TOLD 15) FROM THE DEPOT TO THE DOCKS AND THAT THE MINIMUM BID ON THAT SHORT HAUL WAS \$230,000. RAVENNA SAID THAT THE UNFORESEEN BITE INTO THE BUDGET HURT BUT ADMITTED THAT IT WAS THE GOU'S

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OVERSIGHT. NEVERTHELESS, THE 48-HOUR DEADLINE ON THE

AIRCRAFT GAVE THEM NO TIME TO BENEFIT FROM THE RAILROAD EXPERIENCE AND LOOK INTO ALL THE ANGLES. HE KNEW THE REASONS FOR THE DEADLINE AND DID NOT FAULT US. HOWEVER, IT WAS OBVIOUS THAT HE WAS NOT HAPPY.

3. THE FOREGOING IS WATER OVER THE DAM BUT I WONDER IF THERE COULD BE AN ERROR ON THE COST DATA GIVEN US ON THE AIRCRAFT? AIR FORCE MIMEP OFFER 213 GAVE US A PRICE OF \$362,000 PER UNIT, INCLUDING RECONDITIONING. REF (A) GAVE US A QUOTATION OF \$502,000 PER UNIT, AN INCREASE OF \$140,000 PER UNIT IN SIX WEEKS. ALSO, USAF, LESS THAN A YEAR AGO, ESTIMATED TRAINING COSTS ASSOCIATED WITH A PACKAGE OF TWELVE A-37S TO BE \$262,000. USAFSO RECONFIRMED THESE FIGURES AS SUBSTANTIALLY CORRECT IN JANUARY 1974. SIX MONTHS LATER THE USAF TRAINING PACKAGE FOR EIGHT A-37S (REFTEL) IS \$500,000. INFLATION IS SOMETHING URUGUAYANS ARE WELL ACQUAINTED WITH BUT THEY KNOW THE RATE OF INFLATION IN THE US, TOO, AND IT IN NO WAY APPROXIMATED THE INCREASES IN QUOTATIONS GIVEN THEM ON AIRCRAFT AND TRAINING. COMUSMILGP WAS HARD PRESSED IN TRYING TO EXPLAIN HOW AIRCRAFT COULD GO UP ALMOST 30 PCT IN SIX WEEKS AND TRAINING ALMOST 50 PCT IN SIX MONTHS. FRANKLY, I CANNOT UNDERSTAND IT EITHER. HAD THERE BEEN TIME WE COULD HAVE CLARIFIED SOME OF THESE MATTERS THROUGH FURTHER TRAFFIC. HOWEVER, THE URUGUAYANS FELT OBLIGED TO INDICATE ACCEPTANCE WITHOUT HAVING HAD TIME TO CONSIDER THE SUBSTANTIALLY INCREASED PRICES OR IN FACT EVEN HAVING THE INCREASED COST BEFORE THEM. IN FACT, WE BELIEVE THAT THEIR REPRESENTATIVE WAS AUTHORIZED TO SIGN LAST FRIDAY ON THE BASIS OF THEIR FAITH IN US.

4. IN MAKING OFFER TO GOU ON BASIS REF (B), WE WERE CAREFUL TO POINT OUT THAT PRICE WAS "APPROXIMATELY 4.8 MILLION DOLLARS" AND THAT FIRM PRICE AND AVAILABILITY DATA WOULD BE SUPPLIED PROMPTLY. IN SAYING THIS NEITHER WE NOR I AM SURE THE GOU WOULD HAVE BELIEVED THAT THE "APPROXIMATE" PRICE QUOTED IN A MATTER UNDER DEVELOPMENT FOR SOME TIME WOULD A FEW DAYS LATER BE PROVED TO BE 561,000 DOLLARS OR NEARLY 12 PCT TOO LOW. GIVEN THE HIGH

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PRESSURE CIRCUMSTANCES INVOLVED, IT WOULD HAVE BEEN FAR MORE ACCEPTABLE TO ERR ON THE HIGH SIDE INSTEAD OF ON THE LOW SIDE.

5. I REALIZE THAT THE GOU SIGNED A LINE OF CREDIT AND DID NOT CONCLUDE A CONTRACT FOR THE PURCHASE OF AIRCRAFT. CONSEQUENTLY, I WOULD APPRECIATE KNOWING IF THE PRICES QUOTED IN THE REFTEL ARE BOTH ACCURATE AND FIRM. IF

THEY ARE I WOULD ALSO APPRECIATE SOME GUIDANCE ON HOW TO EXPLAIN THE SUBSTANTIAL INCREASE IN PRICE OVER SO SHORT A SPAN AND ALSO WHETHER SOME RELIEF COULD BE PROVIDED IN THE DIRECTION OF REDUCING THE DIFFERENCE SOMEWHAT. FOR EXAMPLE, WOULD IT BE POSSIBLE TO ABSORB SOME OF THE TRAINING BILL UNDER MAP OR SOME OTHER PROGRAM?

6. NOW THAT THE NEGOTIATIONS ON THE SALE ARE COMPLETED, IT WOULD SEEM APPROPRIATE TO ELIMINATE THE EXDIS DESIGNATOR WHICH HAVE BEEN USED BECAUSE OF REFERENCING REQUIREMENTS.
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